CIBC FICC Strategy and Economics

FX STRATEGY

August 2026

FX Monthly – Still USD Lower

Majors Summary

DXY – Spot: 100.41 | Q3 2026: 100.22 | Q4 2026: 98.84

We remain of the view that the key trading the USD through H2 is whether or not the Fed hikes in the next 3 months. The Fed having skipped July was crucial to our USD lower view, as we expect that the data between now and the September meeting will soften enough such that hikes may be questioned. Meanwhile, rest of world data is picking up relative to the US and we expect that a continuation of this theme will also weight on the USD. We look for the DXY to selloff towards 98 by end of year.

USD/CAD – Spot: 1.4030 | Q3 2026: 1.40 | Q4 2026: 1.37

We've left our CAD forecast unchanged, projecting a gradual strengthening in the Loonie on the back of a broader pull back in the USD, tied in part to an easing of rate hike expectations for the US. But while this is our base case forecast, there are a number of new uncertainties including renewed conflict in Iran and new tariffs on Canada. Our forecast is dependant on both of these negative influences fading over time.

EUR/USD – Spot: 1.1503 | Q3 2026: 1.15 | Q4 2026: 1.17

We head towards the 10 September ECB policy decision on the back of what can be considered to be a hawkish hold. The bank continues to await additional information, notably HICP and wages, albeit another adjustment is almost fully anticipated. Despite immediate growth challenges underlying forward sentiment indicators are showing signs of resilience, German Ifo business sentiment registered the strongest monthly gain since March 2024 in the July reading. Given our presumption of the ECB Governing Council (GC) being keen to avoid policy mis-steps, we would expect the ECB to avoid entering restrictive territory, compromising growth prospects in the process. While natural gas challenges remain a residual concern, such risks notwithstanding points towards graduated EUR/USD gains into 2027.

GBP/USD – Spot: 1.3459 | Q3 2026: 1.34 | Q4 2026: 1.35

Given its high beta status Sterling's performance remains somewhat beholden to risk sentiment. Moreover, the macro environment remains acutely exposed to energy price dynamics. While external factors remain challenging, (the recent energy price rebound amplifies the policy challenge facing the BoE) we continue to expect that policy will actually remain unchanged through year end. Beyond risk related uncertainty the UK has embraced its seventh PM in the decade since the UK voted to leave the EU. The transition from PM Starmer to Burnham has been characterized as moving from doom mongering to Manchester (happy) vibes. Risk uncertainty notwithstanding, the prospect of a graduated improvement in consumer spending, amplified and supported by BoE monetary policy inertia, points towards modest GBP impetus over the next 12m.

USD/JPY – Spot: 159.27 | Q3 2026: 164 | Q4 2026: 163

The July 30th intervention comes after the July 2nd Reuters report which said "officials are also avoiding any suggestion of a specific 'line in the sand' exchange-rate level." However, we think this week's surprise MoF intervention looks like it was pre-emptively defending ahead of 165.00. Therefore, although officials are no longer warning verbally, their actions suggest the 165 level in USD/JPY still matters. For August, the market will be wary of testing 162.00 again after Thursday's show of force, but in the medium-term we see upside risks. Stronger US data which leads markets to price a September Fed hike should lead USD/JPY to rebound. In a risk scenario where the Fed hikes and BoJ holds in September, USD/JPY could end Q3 at 164.

FX Forecasts

End of period:	Jul 31, 2026	Q3 '26	Q4 '26	Q1 '27	Q2 '27	Q3 '27	Q4 '27
USD / CAD	1.40	1.40	1.37	1.36	1.36	1.34	1.34
EUR / USD	1.15	1.15	1.17	1.19	1.20	1.19	1.18
USD / JPY	160	164	163	161	159	157	155
GBP / USD	1.34	1.34	1.35	1.38	1.39	1.38	1.39
USD / CHF	0.81	0.81	0.81	0.80	0.80	0.81	0.82
USD / SEK	9.59	9.48	9.14	8.87	8.71	8.70	8.69
AUD / USD	0.70	0.70	0.71	0.72	0.72	0.72	0.72
NZD / USD	0.59	0.59	0.60	0.61	0.61	0.61	0.61
USD / NOK	9.54	9.48	9.27	9.03	8.92	8.95	8.98
USD / ZAR	16.59	16.35	16.15	15.90	15.75	15.65	15.50
USD / BRL	5.08	5.40	5.00	5.00	4.80	5.00	5.20
USD / MXN	17.38	17.50	17.00	17.00	17.50	17.50	17.00
USD / COP	3137	3300	3500	3500	3450	3400	3400
USD / CLP	929	880	850	850	820	820	820
USD / CNH	6.75	6.76	6.74	6.72	6.70	6.70	6.70

CAD Crosses

End of period:	Jul 31, 2026	Q3 ‘26	Q4 ‘26	Q1 ‘27	Q2 ‘27	Q3 ‘27	Q4 ‘27
CAD / JPY	114	117	119	118	117	117	116
CAD / CHF	0.58	0.58	0.59	0.59	0.59	0.60	0.61
AUD / CAD	0.98	0.98	0.97	0.97	0.98	0.96	0.96
GBP / CAD	1.88	1.88	1.85	1.88	1.89	1.85	1.86
EUR / CAD	1.61	1.61	1.60	1.62	1.63	1.59	1.58

EUR Crosses

End of period:	Jul 31, 2026	Q3 ‘26	Q4 ‘26	Q1 ‘27	Q2 ‘27	Q3 ‘27	Q4 ‘27
EUR / JPY	183	189	191	192	191	186.83	183
EUR / GBP	0.85	0.86	0.87	0.86	0.86	0.86	0.85
EUR / CHF	0.93	0.93	0.95	0.95	0.96	0.96	0.97
EUR / SEK	11.00	10.90	10.69	10.56	10.45	10.35	10.25
EUR / NOK	10.94	10.90	10.85	10.75	10.70	10.65	10.60

Central Bank Forecasts

	Current	Q3 '26	Q4 '26	Q1 '27	Q2 '27	Q3 '27	Q4 '27
Fed	3.63	3.63	3.63	3.63	3.63	3.38	3.13
BoC	2.25	2.25	2.25	2.25	2.50	2.75	2.75
ECB	2.25	2.50	2.50	2.50	2.25	2.25	2.25
BoE	3.75	3.75	3.75	3.75	3.50	3.50	3.50
SNB	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BoJ	1.00	1.00	1.25	1.25	1.50	1.75	2.00
RBA	4.35	4.35	4.60	4.60	4.60	4.60	4.60
RBNZ	2.50	2.75	3.00	3.25	3.25	3.25	3.25
Banxico	6.50	6.50	6.50	6.50	6.75	6.75	6.75
BCB	14.25	14.00	13.75	13.50	13.00	12.50	12.00
BCCh	4.50	4.25	4.25	4.25	4.25	4.25	4.25
Banrep	12.00	12.00	12.25	12.25	11.75	11.25	10.25

Market Pricing

	Current	Next Meeting	Q3 '26	Q4 '26	Q1 '27	Q2 '27
BoC	2.25%	Sep 2	2.29%	2.46%	2.67%	2.87%
Fed	3.63%	Sep 16	3.79%	3.99%	4.12%	4.17%
ECB	2.25%	Sep 10	2.41%	2.61%	2.73%	2.78%
BoE	3.75%	Sep 17	3.81%	4.06%	4.24%	4.33%
RBA	4.35%	Aug 11	4.39%	4.50%	4.54%	4.50%
RBNZ	2.50%	Sep 1	2.74%	3.08%	3.38%	3.52%
SNB	0.00%	Sep 24	0.00%	0.03%	0.14%	0.24%

United States

Sarah Ying and Noah Buffam

USD – A Falling Dollar Amid Low Volatility

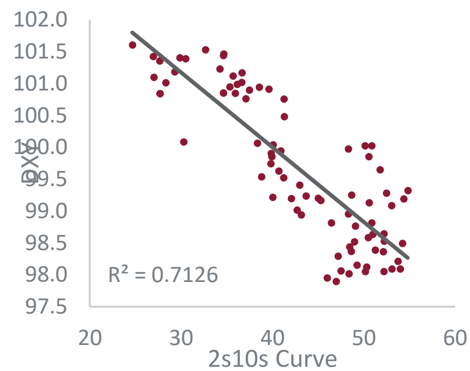
DXY – Q3 2026: 100.22 | Q4 2026: 98.84

This month the FOMC has demonstrated a willingness to remain patient, leaving interest rates on hold at 3.50%-3.75%. Warsh continues to deliver little guidance to the market, making the September meeting live as well, with now some 15bps priced (vs. fully priced before the July meeting). Ahead of the September meeting, there are two more labor market and CPI prints, so there are plenty of potential catalysts that could cause Fed expectations to shift again. We suspect that the upcoming data would likely favor Fed patience. Leading indicators suggest the labor market may slow, with NFIB hiring intentions tapering. On the inflation side, while higher energy prices remain a risk, decelerating shelter costs and stagnant wages would provide a meaningful offset. We are looking for a weaker greenback into the coming months should the data continue to slow down, forcing the Fed to remain patient at its September meeting as well.

Even though we are looking for a weaker greenback, we need to take into context the current environment of volatility decay. Consider that a lot of the currency volatility this year has been driven by an unusual series of events: (in no particular order) war, inflation uncertainty, outsized US data outperformance v. world, AI mania, brief de-dollarization concerns (recall late January), tariffs, JPY rate checks, etc. This has decoupled the traditional rates → FX relationship year-to-date. But now the dust seems to have settled, and the FX/rates relationship is back again.

These days, the curve provides a stronger signal to the greenback than simply the level of rates. If the Fed is more patient, the back end of the curve could sell off - especially if US/Iran tensions persist. Therefore, rather than a full on bull steepener from a dovish repricing of the Fed, we may see more of a 2s10s 'twist'. The greenback is usually less responsive to curve 'twists' – consider our models show that a 10bps move steeper in 2s10s is only worth some 0.30% move lower in DXY. In a normal bull steepener that move would be over double. So we are still calling for a lower US dollar, but we want to be realistic on the size of the move in context of falling volatility. DXY likely sees support around 99.70 over the coming months. A break towards 98.0 is only achievable if the next two labor market reports are weak, causing the market to price out hikes currently anticipated in September.

Chart: The Relationship Between 2s10s and DXY



Source: Bloomberg, CIBC Capital Markets

Canada

Avery Shenfeld and Katherine Judge

CAD – Steady Through Uncertainty

USD/CAD – Q3 2026: 1.40 | Q4 2026: 1.37

We've left our CAD forecast unchanged, projecting a gradual strengthening in the Loonie on the back of a broader pull back in the USD, tied in part to an easing of rate hike expectations for the US. Better economic growth ahead for Canada in 2027, amidst a still sluggish population growth rate that will keep potential growth suppressed, is also expected to narrow the output gap enough to see the Bank of Canada take Canada's overnight rate back to its neutral estimate of 2.75%.

But relative to a month ago, that forecast for Canadian dollar appreciation comes with some significant new uncertainties, particularly for the next few months. It's in part dependent on a deceleration in fuel price inflation that allows the Fed continue its watchful waiting stance rather than hiking rates, a forecast that is clearly at risk if the conflict in the Persian Gulf continues to escalate. Moreover, the recent US announcement of additional tariffs on Canada, with a 30-day implementation delay, has accelerated talks between the two countries, and an unfavorable outcome for Canada would be a new negative for the Canadian dollar that we didn't factor in a month ago. Our assumption is that these talks will at least dial some of these new tariff threats, but like the conflict with Iran, there are a broad range of plausible outcomes.

Europe

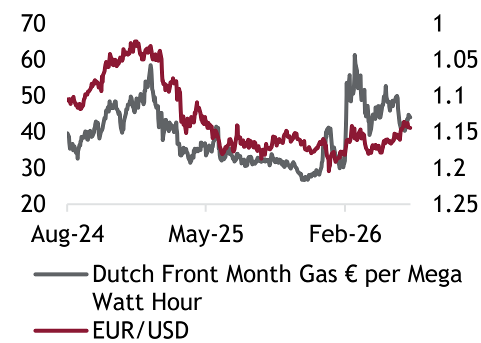
Jeremy Stretch

EUR – Post A Hawkish Hold

EUR/USD – Q3 2026: 1.15 | Q4 2026: 1.17

After hiking rates for the first time since September 2023 at the June ECB we along with the market fully expected the bank to leave policy on hold at the July policy gathering. We would characterize the July decision as something of a hawkish hold as the bank awaits additional information, notably HICP and wages, ahead of the 10 September policy decision. The next meeting comes with the next round of ECB staff forecasts, hence we would always expect a higher reaction function. Given the market currently prices in around 22bps underlines market confidence regarding a second hike in the cycle.

Chart: EUR/USD and Dutch Gas Futures



Source: Bloomberg, CIBC Capital Markets

In terms of the policy narrative although the ECB remains wary of pre-committing. Consequently, the Governing Council have maintained " a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance." However, the bank remains acutely aware of past policy mis-steps. Moreover, the ECB remain mindful of tightening financial conditions, credit standards and falling household loan demand, as detailed by the latest ECB bank lending survey. We can expect ECB doves to continue to note that second round wage effects remain conspicuous by their absence; the latest ECB wage tracker suggests that wage impacts remain relatively modest; annual wage growth is expected to modestly accelerate to increase 2.7% into Q1 2027.

Beyond expecting a second hike in the cycle in September we would view the bar to additional tightening as relatively substantive. Any amplification in December ECB pricing, potentially as a consequence of an amplification in natural gas prices, (EU inventory levels at 55% are well below the five year average of 71%) would risk compromising already tepid eurozone growth presumptions. However, even should the ECB hike in September monetary policy would not be restrictive. In this context we would note that ECB Chief Economist Lane has suggested that the ECB's perceived neutral rate spectrum has "crept up" from the ECB's previously assumed 1.75-2.25% range from its February 2025 policy paper.

Despite immediate growth challenges underlying forward sentiment indicators are showing signs of resilience, German Ifo business sentiment registered the strongest monthly gain since March 2024 in the July reading. Given our presumption of the ECB Governing Council (GC) being keen to avoid policy mis-steps, we would expect the ECB to avoid entering restrictive territory, compromising growth prospects in the process. While natural gas challenges remain a residual concern, such risks notwithstanding points towards graduated EUR/USD gains into 2027.

GBP – From Doom Mongering to Good Vibes

GBP/USD – Q3 2026: 1.34 | Q4 2026: 1.35

Given its high beta status Sterling's performance remains somewhat beholden to risk sentiment. Moreover, the macro environment remains acutely exposed to energy price dynamics; increased prices risked compromising discretionary spending. While external factors remain challenging, the recent energy price rebound amplifies the policy challenge facing the BoE. However, we continue to expect that policy will actually remain unchanged through year end; despite the market almost fully pricing a hike by the November MPC.

Given that the BoE viewed monetary policy was restrictive prior to the Iran related energy spike supports our presumption of broad policy inertia, provided that second round effects, notably wages, remain absent. BoE mistrust of official employment data leaves the BoE consideration of a holistic approach, the bank remains mindful of external employment surveys, such as the KPMG/REC, in addition to their network of regional agents. Nevertheless, they cannot ignore that official ONS data details headline private sector underlying earnings decelerating to the slowest pace (2.9%) since October 2020.

Although vacancies have trended sideways over the last 12 months, (they have halved from 2022 highs) the KPMG/REC survey suggests rising redundancies amidst rising labour supply. The BoE agents report detailed pay settlements remaining around 3.5%. The subtext is that private sector wage growth remains insufficient to warrant precautionary tightening. Nevertheless, we would expect ongoing BoE dissent, via hawks advocating tightening into year end. However, we expect the quorum, led by Governor Bailey, to vote for no change.

Beyond risk related uncertainty the UK has embraced its seventh PM in the decade since the UK voted to leave the EU. The transition from PM Starmer, he survived little over two years, has been characterized as moving from doom mongering to Manchester (happy) vibes. The legacy of the transition is identified by a 6-point monthly gain, (the the biggest monthly advance since November 2023) in July GfK consumer confidence. The gain leaves the series at the highest level since January. Beyond the headline jump we would note the most aggressive uptick in the climate for major purchases in almost three years.

A new PM comes with new ideas and new personnel. Key questions relate to the fiscal stance, not least ahead of the autumn budget, date tbd. However, given that the new PM and Chancellor/Finance Minister have suggested they would operate under the current fiscal envelope suggests fiscal risks, for now at least, should be kept in context. Risk uncertainty notwithstanding, the prospect of a graduated improvement in consumer spending intentions, amplified and supported by BoE monetary policy inertia, points towards modest GBP impetus over the next 12m.

CHF – SNB Carry Trade Appetite To Grow

EUR/CHF – Q3 2026: 0.93 | Q4 2026: 0.95

We have long assumed that the SNB remains concerned by an overvalued CHF. Consequently, the central bank would be happy to maintain rates at the current threshold, namely zero, for a protracted period assuming limited price pressures. In terms of CHF overvaluation we would note that according to OECD metrics the Swiss currency remains the most overvalued major versus the USD, albeit at around 12% the overvaluation cannot be described as egregious. Nevertheless, against the backdrop of benign price influences, the most recent SNB minutes detailed that "at present, inflation cannot be expected to rapidly rise above 2% or fall into negative territory, " validates our long held bias of SNB policy inertia.

The most recent meeting minutes, from the 18 June quarterly policy gathering, detailed that there was no need for immediate action. However, that language has prove to be amplified in the wake of an unusual SNB source stories. While central banks are increasingly eschewing forward guidance it has been suggested that the bank anticipates holding the policy rate at zero through to the end of next year. Given that the market has been fully pricing a rate hike by mid 2027, such guidance risks a potential re-pricing, weighing on the overvalued CHF and or easing broadly disinflationary forces in the process.

The presumption of an extended period of SNB inertia is likely to accelerate appetite to use the CHF as the short leg of the carry trade, recent BoJ/MoF intervention underline CHF superiority in this context. The presumption of an extended period of policy inertia and or extension of already elevated CHF shorts supports the notion of a graduated CHF cheapening and or boost in competitiveness versus its main trading partner the EU.

SEK – Advancing Domestic Sentiment

EUR/SEK – Q3 2026: 10.90 | Q4 2026: 10.69

In the last FX monthly publication we noted that we expect an easy monetary policy stance (1.75%) to persist, the market is currently only pricing in a modest 5bps for the 20 August Riksbank. However, forward looking domestic macro indicators should remain supportive. Although the SEK continues to be impacted by underlying risk sensitivity, the legacy of a stimulatory monetary policy backdrop is an aggressive uptick in the economic surprise index (ESI), the series is running at levels not witnessed since November. Contingent to the ESI advance is an above expectations flash Q2 GDP reading while the key forward looking economic tendency indicator has advanced for a third straight month for the first time this year, leaving the overall index at the highest level since June 2022.

The 1.4% qoq gain in the flash estimate of Q2 GDP was double that expected by the market and or above the 0.9% quarterly expansion discounted by the central bank in the June Monetary Policy Report (MPR). Flash estimates of GDP and CPIF, (the latter is due on 6 August) are volatile and prone to revision. However, the robust advance in the first estimate of Q2 activity validates the strong gains in key sentiment series such as PMI, the composite measure ended H1 at the highest level, 57.1 since November.

Beyond the GDP advance and PMI resilience we would note a third straight uptick in the economic tendency survey. That the series is at levels last seen in June 2022 is contingent to underlying SEK resilience, external risk negativity notwithstanding. Within the details of the strongest monthly gain (2.6 points) in 10 months we would note that manufacturing confidence is at highest level since September 2022 at 107.9 while consumer confidence has not been higher than the current 97.1 since November 2024. The perpetuation of a loose monetary stance, we remain uncertain that the bank will look to hike in the near term given contained inflationary pressures and expectations, supports the notion of SEK impetus predicated on robust and strengthening domestic indicators.

NOK – Best G10 Performer In H2

EUR/NOK – Q3 2026: 10.90 | Q4 2026: 10.85

Despite an substantive downside surprise in June CPI, challenging Norges Bank tightening presumptions into year-end, (25bps is almost fully priced by the September meeting) the NOK remains the top performing G10 currency in H2. Immediate NOK resilience, (CHF/NOK is a top performing trade, carry also works in its favour) is a function of the early month energy sector rebound. Despite the oil bounce, boosting the current account position, EUR/NOK remains well above the 21 May low at 10.6978. We would note the NOK rebound precluded EUR/NOK from trading through the 200Day MAV, we have not breached the 200 day since the turn of the year.

The unexpectedly modest June CPI print, 0.6% below that assumed in the June MPR, potentially causes a policy headache for the central bank. We would note that Norges Bank's Director of Monetary Policy, Bech-Moen, has previously suggested that "its not unusual for (Norges) forecasts miss by 0.2 percentage points." However, the scale of the June miss (0.6%) underlines that while the bank remain predicated towards additional tightening, the risks of an August move, absent a material extension in energy price dynamics, is likely to remain contained, we would view market pricing, currently around 9bps, as excessive.

However, we remain mindful of the fact that there is another CPI print (10 August) ahead of the 13 August Norges Bank decision; we would be wary of at least part of the June undershoot being unwound. Beyond any reversal in July CPI we would note that service prices and those price variables linked to wages remained relatively robust in June. Underlying price pressures support the notion of additional tightening, an additional 25bps, taking the target rate to 4.50%, seems likely by the September meeting,

Elevated nominal rates, energy price sensitivity and or supportive domestic finances provide a solid fundamental rationale for the NOK. We would expect NOK appetite to remain evident, encouraging NOK impetus versus both the EUR and USD into year-end.

Asia-Pacific

Maximillian Lin

JPY – Surprise! The 165 Level Still Matters

USD/JPY – Q3 2026: 164 | Q4 2026: 163

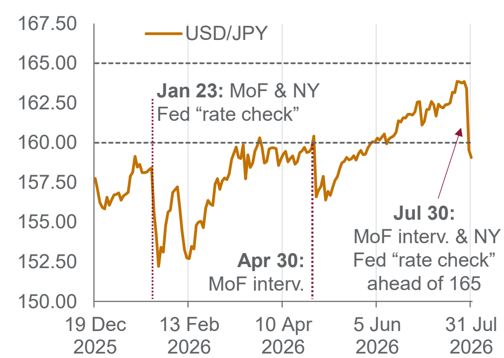
Since June we waited for Japan's Ministry of Finance to defend USD/JPY at 162.00 (which broke on June 30th) and 163.00 (which broke on July 22nd). Eventually, we gave up on the MoF coming in until 165.00. In our FX Thematic last week, we wrote that "the MoF could still intervene at 165.00, but higher oil prices mean the MoF will likely allow JPY to settle at 165-168."

This week the MoF finally entered the FX market with full force, and on Thursday (July 30th) the yen surged by 3% around 9:30 AM ET to 157.98 per dollar. The MoF response was a surprise because since mid-July, the yen had been depreciating very gradually. As a result, prior to the news most market participants (including us) believed there was little need for the MoF to respond until USD/JPY neared 165. Having recently "given up" on waiting for intervention, we were genuinely surprised on Thursday.

The MoF shift to a "surprise strategy" comes after the July 2nd Reuters report which said officials would no longer warn in advance, and instead surprise markets going forward. The Reuters article also noted that "officials are also avoiding any suggestion of a specific 'line in the sand' exchange-rate level," leading us to think that 165.00 could eventually break in Q3. However, this week's MoF response looks as if it was meant to pre-empt ahead of 165.00. So although officials are no longer warning verbally, their actions suggest the 165 level in USD/JPY still matters.

Friday's BoJ statement and 8-1 vote were more hawkish than we expected. The statement and press conference repeatedly warned about the impacts of weak yen onto inflation. We think that supports our base case for an

Chart: The January and April MoF Actions Were Aimed at Managing the 160 Level



Source: BoJ, Bloomberg, CIBC Capital Markets

October 30th hike – faster than the previous six-month hike pace (which implied a December hike). We think additional hawkish dissents in September will reaffirm market expectations for October.

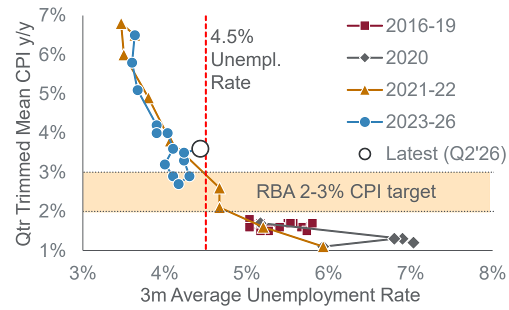
For USD/JPY, the market will be wary of testing 162-163 again after Thursday's show of force, but in the medium-term we see upside risks. Stronger US data which leads markets to price a September Fed hike should lead USD/JPY to rebound. In a scenario where the Fed hikes and BoJ holds in September, USD/JPY could end Q3 at 164. For August, however, we think USD/JPY stays below 162.00 as traders remain mindful of MoF action. Compared to the April-May interventions, the January and July MoF actions arguably carry more weight because of the coordinated "rate check" by the US Treasury (confirmed by the Nikkei Asian Review).

AUD – RBA Takes A Break

AUD/USD – Q3 2026: 0.70 | Q4 2026: 0.71

July was eventful for AUD, with RBA expectations and US-Iran tensions whipsawing back and forth. The market began the month believing that the RBA was likely "done hiking" in the wake of the June 16th policy meeting which effectively signaled a pause for August. However, in mid-July the market shifted back to a hawkish narrative following a surprise June jobs print (released on July 23rd) which showed headlines gains of +76.3k (vs consensus +15.0k), a second consecutive 40k+ print. When combined with the mid-July escalation in the Middle East putting pressure on oil prices, the market went back to pricing in risk of RBA hikes in August and September.

Chart: Despite above-Target Core CPI, the Phillips Curve Shows Progress



Source: ABS, CIBC Capital Markets

Governor Bullock reversed those expectations during a speech on July 28th. Her main message was that economic growth is cooling "as expected." Despite the strong jobs data, Bullock's speech noted that *"demand growth appears to be moderating broadly as expected in the May baseline forecasts."* She also stated *"the labour market has also eased a bit more than expected over recent months, moving it a little closer to balance relative to its tight starting point."* Adding to the dovish narrative, Q2 trimmed mean CPI (released on July 29th) came in 0.1 ppt below expectations at +3.6% y/y. Core CPI still remains above the RBA's 2-3% target, but demand-driven inflation (as suggested by the Phillips Curve) is nonetheless making progress as unemployment moves towards 4.5% (see chart).

As a result, we expect the RBA to hold in August and September. However, on guidance we think the RBA will continue to emphasize a "wait and see" stance. Governor Bullock will need to maintain option value in case data recovers ahead of the September 29th RBA meeting. Geopolitical uncertainty means an open-ended policy stance will need to accompany the likely hold in August. Despite the RBA pause, we think short-term limited USD weakness points to stable AUD/USD at 0.70-0.71 in Q3-Q4.

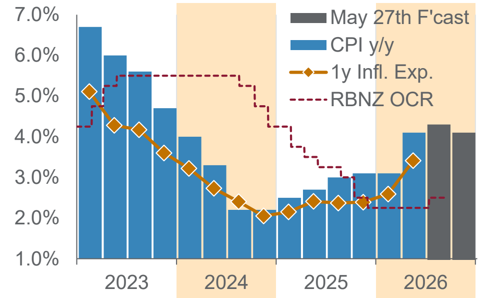
NZD – A Q3 RBNZ Hike is Approaching

NZD/USD – Q3 2026: 0.59 | Q4 2026: 0.60

The July 8th RBNZ meeting saw the MPC hike the OCR by 25 bps to 2.50%, as expected by us and a majority of consensus. The tone of the statement and press conference as mildly hawkish – although the RBNZ statement made brief mention of spare capacity dampening firms ability to pass on costs, the main message was given inflation is *"still above target and economic activity expected to strengthen, some further reduction in monetary stimulus is likely to be required to return inflation to the 2% target."*

The presentation materials noted that the committee agreed to raise rates "by consensus," and we think it's clear that most of the May doves had "crossed over." During the press conference, Governor Breman and Chief Economist Conway (usually doves) emphasized some hawkish points; they argued that the need to return inflation back to target was the priority, and that in the long-run NZ businesses and households would benefit.

Chart: Headline CPI Rose above 4% in Q2. RBNZ Forecasts Q3 CPI to Stay High



Source: RBNZ, Bloomberg, CIBC Capital Markets.

Breman was mum about short-term forward guidance, suggesting a data-dependent stance. When asked whether the September meeting would be "live," Breman repeated the statement line that *"the additional withdrawal of stimulus is likely,"* but *"timing is uncertain."* Since then, Q2 CPI data (released July 21st) surprised 0.1 ppt higher than consensus at 4.1% y/y. Although that is slightly below the May MPS projection of 4.2%, it still confirms the shift higher to 4%+ inflation forecasted for the rest of the year (see chart). On balance, we think this points to a September rate hike.

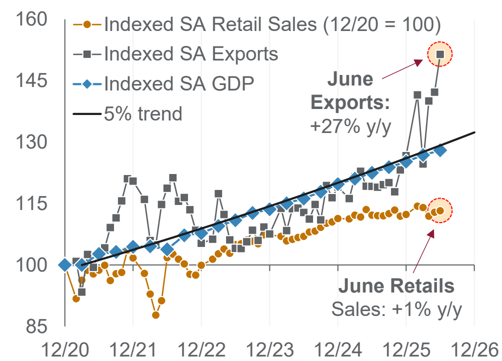
We think a reasonably hawkish scenario is three more hikes before the RBNZ pauses at 3.25%. If the RBNZ hikes in September (to 2.75%), as consensus expects, we think a pause in October is likely, followed by additional moves in December (to 3.00%) and February (to 3.25%). Breman noted during Q&A that the neutral rate estimate is uncertain, but is believed to be in the range of 2.5% - 3.5%. A terminal rate of 3.25% would be on the mildly hawkish side of that band. For the kiwi, a more proactive RBNZ should help NZD/USD lock in recent gains, and we raise our forecasts to 0.59 and 0.60 for Q3 and Q4, respectively.

CNH – External Strength and Internal Weakness

USD/CNH – Q3 2026: 6.76 | Q4 2026: 6.74

China data in Q2 presented a familiar economic paradox – strong export-driven demand for tech and advanced manufacturing, yet persistent weakness in domestic demand. June monthly data showed a continuation of the interval vs external demand divergence, albeit with more extreme numbers. Exports for June (measured in USD terms) surged to 27% y/y (see chart) – much higher than the consensus forecasts of +19% y/y, but that export strength was accompanied by weak June retail sales of +1.0% y/y.

Chart: Despite the June Exports Surge, Q2 GDP slowed on Weaker Consumption



Source: Bloomberg, CIBC Capital Markets

Consumer demand is still dealing with the multi-year correction in property prices, which has resulted in a negative wealth effect and made many unwilling to spend. The boom in manufacturing has also done little to change unemployment, which came in at 5.0% in June, only slightly better than consensus expectations of 5.1% unemployment. Due to automation, consumers aren't reaping the benefits of the high-tech industry. On balance, weak consumption still weighed more on overall Q2 GDP, which came in +4.3% y/y (vs consensus +4.5%), a slowdown from the Q1 pace of +5.0%.

Now that Q2 GDP growth is below the official 2026 growth target range of 4.5% - 5.0%, some economists are arguing that additional easing may be needed in Q3. Although we think rate cuts in Q3 are unlikely, leaders are talking more frequently about additional fiscal stimulus. In early July Premier Li Qiang didn't rule out the possibility, and called for *"preparing and studying additional policies."* On July 30th, Xinhua News reported a Politburo statement which also made broad calls for additional fiscal growth support ahead of the Chinese Communist Party Congress in October. The headlines noted policymakers would *"support more proactive fiscal policy"* and *"enhance counter-cyclical [growth] adjustments."*

That all sounds supportive for the yuan, but in our view the optimism is already priced in. We think further gains in the yuan will be limited. USD/CNH currently trades (near 6.74), or around 400 pips below the level in the USD/CNY fix (6.78). Strong demand for China's advanced manufactured goods means that exporters could easily weather a stronger currency, while a stronger yuan would help to boost consumption of imported goods. However, China would still prefer local tourism demand to stay within the country, and the restrained moves in the fix suggest authorities will allow gradual strength. As a result, we expect a slight reversal in USD/CNH to 6.76 and 6.75 by end Q3 and Q4, respectively, with slow progress on the CNY fix appreciation and geopolitical uncertainty squeezing consensus yuan positions.

Emerging Markets

Latin America

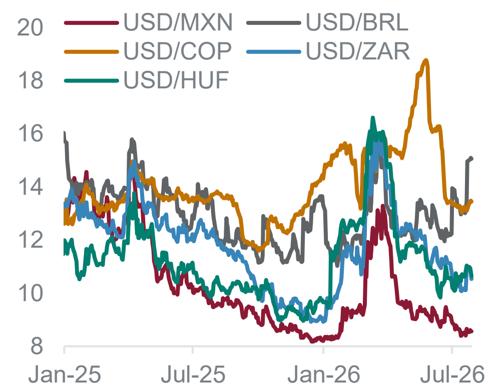
Luis Hurtado

MXN – Low USD/MXN Volatility Unlikely to Support a Prolonged MXN Rally in Q3

USD/MXN – Q3 2026: 17.50 | Q4 2026: 17.00

While the peso still has the lowest volatility among popular carry trades and Banxico has ended its easing cycle, MXN appears to have entered a consolidation phase as markets assess the impact of prolonged USMCA negotiations on investment and GDP growth, geopolitical risks, and a more hawkish Fed.

Chart: 3M ATM Vols



Source: Bloomberg, CIBC Capital Markets

Looking ahead to the upcoming Banxico meeting, we expect the central bank to reiterate that inflation risks remain biased to the upside, as the US-Iran war continues to disrupt oil supply. That said, we highlight that the pass-through from higher energy prices to domestic prices has been limited; in fact, both headline and core CPI have returned to within Banxico's 2%-4% tolerance range in recent weeks. Meanwhile, growth continues to surprise to the downside, with investment concerns persisting as USMCA negotiations continue and additional tariffs are expected in early August (Section 301 – excess manufacturing capacity). While some may argue that a more hawkish Fed could push Banxico to start a tightening cycle in late Q4, it is clear that most board members are assigning significant weight to the negative output gap and recognize that, although the Banxico-Fed interest rate differential is at historical lows, it can still move lower. For now, we expect Banxico to maintain a high bar for the start of a tightening cycle this year—consecutive Fed rate hikes in Q4 could change this, provided 2y and medium-term inflation expectations also move higher—and maintain our forecast for the first rate hike to occur in Q2 2027.

Thus, while we still see MXN as an attractive carry option when geopolitical and/or trade-related headlines subside, we do not anticipate a significant peso rally this quarter. Instead, we expect USD/MXN to consolidate in the 17.50-17.85 range as markets await a concrete deal on the USMCA front, especially on the more difficult issues related to the auto sector and rules of origin.

BRL – Carry Still Provides a Shield, but Election-Cycle Risks Loom

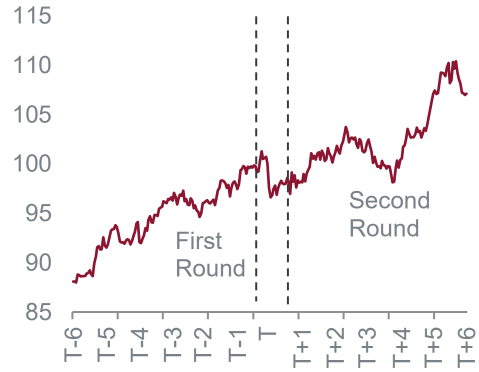
USD/BRL – Q3 2026: 5.40 | Q4 2026: 5.00

What had appeared to be a close presidential race between Flávio Bolsonaro and Lula, combined with the real's attractive carry, drove a sharp BRL appreciation through the first half of the year. However, as polls began to show Lula gaining ground ahead of the October election and medium-term fiscal concerns persisted, USD/BRL failed to maintain its downward trend.

Recall that, despite denying a close relationship with Banco Master CEO Daniel Vorcaro—now imprisoned over an alleged fraud scheme—an Intercept article in May reported that Flávio Bolsonaro had negotiated a R$134mn deal with Vorcaro to fund a film about Jair Bolsonaro. The news has weighed significantly on Bolsonaro's polling since then. Although Lula's polling lead over Bolsonaro has stabilized in recent weeks, fiscal concerns around populist measures and political risks—including new Vorcaro/Bolsonaro headlines and the official start of the campaign season in the second half of August—are likely to remain elevated as the election approaches. Indeed, despite the momentum behind carry trades for most of July, BRL is still down 1.0% since the end of May.

On the monetary policy front, the BCB may be close to pausing its easing cycle as inflation expectations remain unanchored, helping the BRL retain its status as the region's top carry trade. However, we would not chase USD/BRL lower from current levels. Instead, we prefer to wait for a larger correction higher, back toward the 5.20-5.40 range, before re-engaging in strategic USD/BRL shorts. We reiterate that local political risks often trigger sharp USD/BRL rallies in the months leading into elections.

Chart: USD/BRL in the Six Months Leading to the Presidential Election



Source: Bloomberg, CIBC Capital Markets

Note: Average 2014, 2018, 2022 election cycles

COP – Peak Optimism or Structural Change?

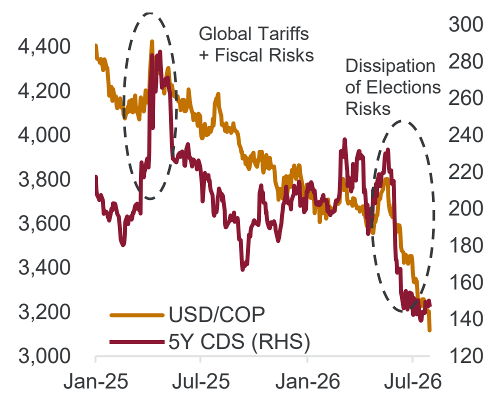
USD/COP – Q3 2026: 3300 | Q4 2026: 3500

Roughly 87% of COP's 22% year-to-date gains have come after Abelardo de la Espriella cemented his lead in the presidential race, securing first place in the first-round election at the end of May and later winning the runoff against the leftist candidate. This pushed 5Y CDS as low as 139bps—levels last seen in Q3 2021. Moreover, the Colombian central bank surprised markets by raising the overnight rate by 75 bps in June, versus expectations for a 50 bps increase, and is expected to deliver another 50 bps hike on July 31. Both the hawkish central bank decision and optimism around potential fiscal reform under a market-friendly government supported the move.

So, are we seeing a structural shift in the Colombian economy, or are we in a period of peak optimism toward Colombian assets? While the new government is taking the right steps, we have yet to see the actual magnitude of the fiscal adjustment needed. A 3% of GDP adjustment, as suggested by the incoming finance minister, is a good starting point and the bare minimum needed to provide markets with some relief. However, if history repeats itself, we could ultimately see only a 1%-2% of GDP adjustment next year, driven mainly by revenue measures, while expenditure cuts could create social turmoil given the Petro administration's still-high approval ratings and the tight election result.

Thus, we remain hesitant to add to USD/COP shorts from current levels. Nevertheless, we recognize that, as the government continues to send the right signals and concrete discussions in Congress on how to reduce the fiscal deficit remain a few weeks away, COP's carry appeal is likely to prevail in the very short term. Selling USD/COP on spikes remains the right course of action for now. On the other hand, if fiscal concerns return to the front page in late Q3/early Q4, we would prefer to express any COP weakness against the region's other popular carry trades. Long BRL/COP and long MXN/COP positions at 610 and 180, respectively, offer the most upside potential in this scenario.

Chart: USD/COP and Colombia's 5Y CDS



Source: Bloomberg, CIBC Capital Markets

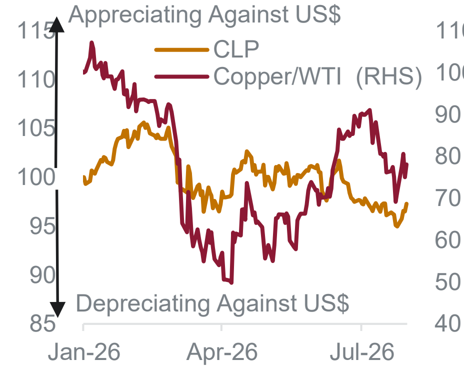
CLP – Still the Easiest Short Amid Geopolitical Risks

USD/CLP – Q3 2026: 880 | Q4 2026: 850

As expected, the BCCh left the overnight rate unchanged at 4.50% in a unanimous decision in July. The statement highlighted the short-term inflation risks created by the Middle East conflict, but noted that 2Y inflation expectations remain anchored at the 3% target, while economic activity has continued to surprise to the downside. Although the limited forward guidance suggests a more cautious tone relative to the previous meeting, the BCCh will have to balance weaker-than-expected growth against the potential price impact of a strong El Niño event—which will likely be expanded on in the minutes—and the ongoing oil supply shock. We have already seen some disruption to local supply chains due to flooding in recent weeks.

All in, selling CLP remains one of the simplest trades during periods of geopolitical headline risk, given its quick reaction to weaker terms of trade—namely, higher oil prices and lower copper prices—which helps explain its year-to-date underperformance. Moreover, CLP is often used as a funding currency for carry trades in the region, particularly BRL and COP, which are somewhat shielded by higher oil prices during geopolitically driven risk-off episodes. CLP also offers no carry. As a result, we would watch for a USD/CLP retest of the November 7, 2025 high of 949.09 on any negative headlines coming out of the Middle East. However, we expect tactical sellers to re-emerge quickly at the first signs of even a modest dissipation in geopolitical risks, with USD/CLP likely stabilizing in the 920-940 range into Q4.

Chart: CLP and Terms of Trade



Source: Bloomberg, CIBC Capital Markets

*Index December 31, 2025: 100

South Africa

Jeremy Stretch

ZAR – SARB Missed An Opportunity

USD/ZAR – Q3 2026: 16.35 | Q4 2026: 16.15

Given the uptick in June CPI that the South African Reserve Bank (SARB) failed to tighten policy at this its recent, 23 July policy meeting, it left rates at 7.00% (after hiking by 25bps on 28 May) proved a material surprise. The legacy of policy inertia proved to be a 2.6% daily decline in the ZAR versus the USD and or SAGB 10 year yields spiking by 16bps. Given the recent adjustment to the CPI target, to now 3% CPI against a tolerance threshold of plus or minus 1%, the lack of action risked a challenge to monetary policy credibility and or foreign appetite to purchase domestic debt.

After four members voted to hike in May, (it was subsequently revealed that a 50bps move was discussed), just two MPC members voted to hike in June, the others preferred to wait to determine the impact of the May tightening. The decision to hold came despite June prices materially exceeding expectations. Despite the market being braced for uncomfortable base effects, pushing up annual transport costs, that headline CPI advanced to 5.0% from 4.5% was something of a surprise. Yet despite the mid-year price spike the bank proved to revise down in 2026 CPI target, from 4.4% to 4.0%, albeit assumptions for 2027 and 2028 were revised up to 3.8% and 3.1% respectively.

Inflation targeting central banks, such as the SARB, underline that its medium run inflation expectations that matter. In this context the bank are keen to underline that recent price pressures remain a function of higher fuel prices. Goods price inflation remained contained. Despite service price concerns the bank anticipates broad price pressures will prove to be suppressed. Such a scenario should maintain appetite for high yielding bonds. We would note that the 3m MAV of foreign bond flows remains positive while real money speculative longs remain near the one year moving average. The ZAR remains highly risk correlated. Any easing in risk tensions and/or energy prices supports the notion of a resumption of ZAR impetus.

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